

Orange County Office Market Report

Anduril's Occupancy Softens Blow of Absorption Losses

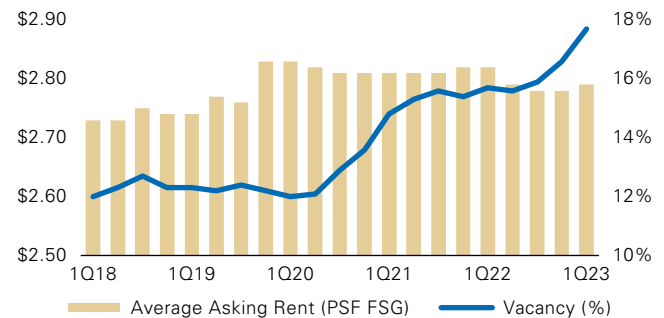
- Vacancy reached an 11-year high, settling at 17.7% after a handful of large move-outs this quarter. Class A vacancy increased to 22.8% while Class B went up to 14.3%.
- Impac Mortgage Holdings (119,114 square feet at 19500 Jamboree Road), Avanir Pharmaceuticals (79,344 square feet at 30 Enterprise), and UnitedHealth Group (56,930 square feet at 3110 Lake Center Drive) were this quarter's larger move-outs.
- Construction deliveries for the quarter include Phase II of Innovation Office Park (258,395 square feet across seven buildings) in Irvine Spectrum and The Press (449,206 square feet) in Costa Mesa.
- Phase II of Innovation Office Park is collectively 14.4% leased. Anduril occupied the entirety of The Press as it awaits the completion of its extension building, which will provide an additional 190,000 square feet of space to house its research and development hub. Construction is expected to be completed sometime mid-2023.
- Despite Anduril's sizeable move-in, net absorption remained in the red, at negative 399,329 square feet.
- Sublet availability continued to grow, but at a slower pace, increasing from 4.3% to 4.4% over the last quarter.
- Although sublet listings are plentiful, some of it is finding new tenants. This quarter, subleases represented 22.0% of all leasing activity, as opposed to 13.0% from the previous quarter and 9.5% during the quarter before that.
- Asking rents held steady in the \$2.78/SF to \$2.80/SF range over the last year. New construction commands a premium.

Office Construction Dwindling

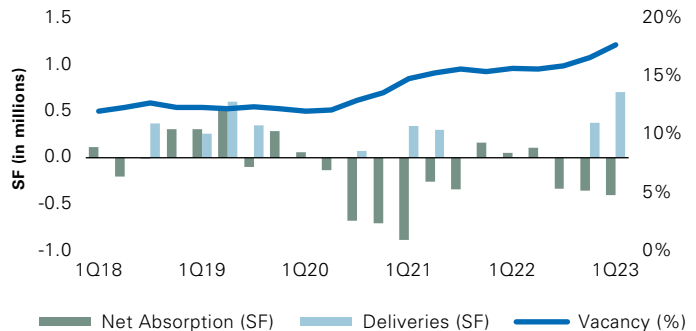
The Press development, now fully occupied by Anduril, was the largest delivery of the quarter, leaving the 190,000-square-foot R&D extension as the sole project under construction in the market. There have been no new construction starts since the groundbreaking of Innovation Office Park six quarters ago.

Market Analysis

ASKING RENT AND VACANCY



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	97.2M	96.5M	96.1M	↑
Total Vacancy Rate	17.7%	16.6%	15.7%	↑
Quarterly Net Absorption (SF)	-399K	-356K	54K	→
Average Asking Rent/SF/Month	\$2.79 FSG	\$2.78 FSG	\$2.82 FSG	→
Deliveries (SF)*	708K	375K	0	↓
Under Construction (SF)	190K	898K	1.3M	→

* includes ground-up construction and excludes renovation projects

Developers are conscious of the oversupply of office space in the market, as well as the impact of remote work, prompting some to scrap existing plans entirely. For instance, Hines and Oaktree Capital Management acquired the property at 17850 Von Karman Avenue in 2013 to develop a Class A office property. Those plans have since been withdrawn following the sale of the asset last year to RK Hospitality Development, which plans to build a five-story Hilton-affiliated hotel instead.

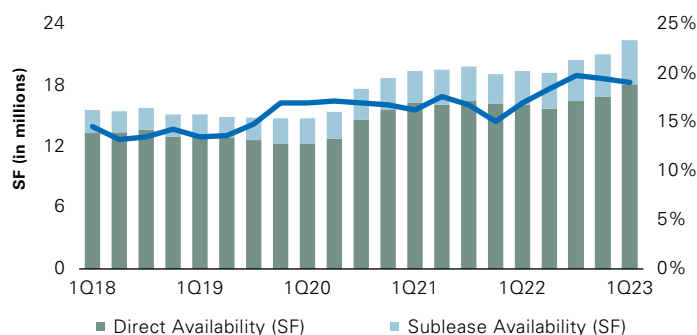
Office Sales Listings for Redevelopment Plays

Listing brokers are promoting applicable properties as redevelopment opportunities for multi-family, life science, and industrial use to attract opportunistic buyers. This quarter, three of the largest office sales were earmarked for future conversions.

Irvine-based IRA Capital purchased a creative office campus totaling 450,000 square feet for \$102.4 million. Located near John Wayne Airport, the campus sits on a 24-acre site and will likely be repurposed into a multi-family or life science property. Dune Real Estate Partners and Rexford Industrial also purchased offices that will be converted into Class A warehouses.

Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A % OF OVERALL AVAILABLE SF



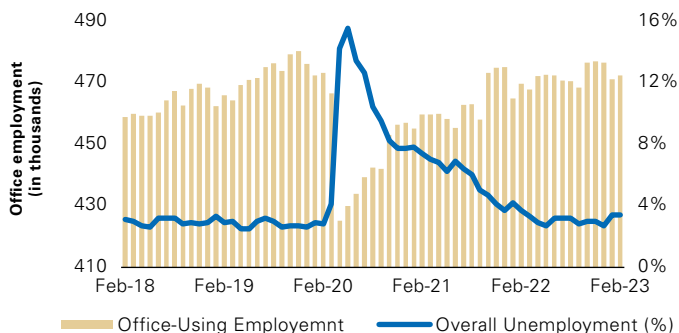
Local municipalities prefer “the gold town” effect that residents and high-paying jobs bring in the form of retail sales and tax collections. Pushback from city councils on the development of industrial facilities 100,000 square feet and greater is creating opportunities for multi-family and life science developers to satisfy this ideal.

Outlook

Despite this quarter’s spike in vacancy, the current average remains lower than the peak of 20.8% seen during the Global Financial Crisis. With the fear of layoffs looming over employees, companies are regaining leverage and mandating a return to the office, which will likely lead to more long-term real estate decisions. Tenants are generally giving up their commodity spaces in favor of smaller footprints within trophy assets in a move to reduce costs and to attract and retain workers. Office properties with healthy occupancy and no major loans will remain competitive and lure tenants with attractive T.I. packages, while commodity buildings with substantial debt and low valuations will likely become obsolete and go offline in the coming years.

Office-Using Employment

ANAHEIM-SANTA ANA-IRVINE



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
SeneGence	141 Innovation Drive	Airport	New	55,635
KTGY	17911 Von Karman Avenue	Airport	Renewal	32,334
Western Growers	6501 Irvine Center Drive	South County	New	32,003

Sale Transactions

Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
IRA Capital LLC	16715-16969 Von Karman Avenue	Airport	\$102,400,000 (\$230/PSF)	450,000
Dune Real Estate Partners LP	3100-3130 South Harbor Boulevard	Airport	\$49,000,000 (\$255/PSF)	193,662
Rexford Industrial Realty	16752 Armstrong Avenue	Airport	\$40,000,000 (\$490/PSF)	81,600

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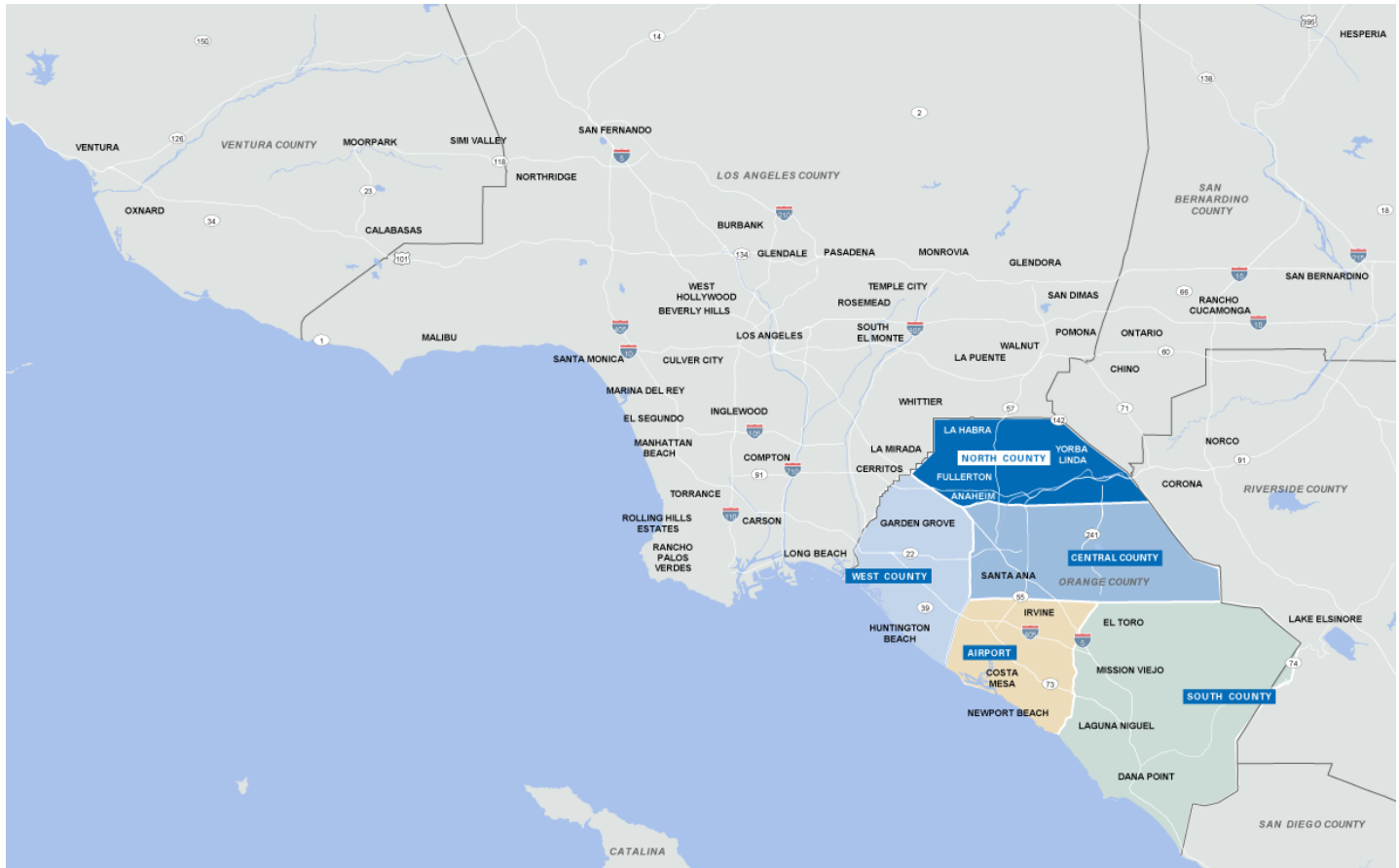
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Airport	42,986,451	190,000	18.9%	-183,635	-183,635	\$3.20	\$2.70	\$3.00
Costa Mesa	6,243,579	190,000	21.2%	421,469	421,469	\$3.27	\$2.43	\$3.02
Irvine	23,115,643	0	19.8%	-514,872	-514,872	\$3.13	\$2.65	\$2.96
Newport Beach	8,512,187	0	12.5%	24,972	24,972	\$3.42	\$3.09	\$3.31
Santa Ana (Airport Area)	4,593,526	0	23.2%	-152,031	-152,031	\$2.80	\$2.71	\$2.71
Tustin	521,516	0	17.1%	36,827	36,827	\$4.50	-	\$4.50
Central County	16,374,212	0	19.0%	-119,203	-119,203	\$2.59	\$2.29	\$2.41
Anaheim (Stadium Area)	3,549,622	0	17.9%	-9,896	-9,896	\$3.08	\$2.41	\$2.68
Orange	5,944,950	0	18.0%	-19,945	-19,945	\$2.40	\$2.53	\$2.43
Santa Ana	5,460,058	0	22.8%	-91,890	-91,890	\$2.74	\$2.22	\$2.30
Tustin	1,419,582	0	11.5%	2,528	2,528	\$2.65	\$1.80	\$1.93
North County	7,329,209	0	11.8%	83,682	83,682	\$2.42	\$2.15	\$2.24
Anaheim (Anaheim Hills)	1,403,737	0	6.8%	50,311	50,311	-	\$1.96	\$1.96
Brea	3,842,277	0	16.9%	28,379	28,379	\$2.42	\$2.19	\$2.29
Fullerton	1,397,654	0	6.3%	4,693	4,693	-	\$2.36	\$2.34
La Habra	174,469	0	2.9%	-532	-532	-	\$1.80	\$1.80
Placentia	239,347	0	8.9%	831	831	-	\$1.70	\$1.83
Yorba Linda	271,725	0	2.6%	0	0	-	\$2.11	\$2.11
South County*	23,679,167	0	17.8%	-114,783	-114,783	\$3.27	\$2.62	\$2.91
Aliso Viejo	2,434,109	0	34.7%	-109,551	-109,551	\$3.29	\$2.84	\$3.13
Dana Point	210,660	0	0.0%	0	0	-	-	-
Foothill Ranch	705,061	0	21.4%	-88,798	-88,798	\$2.50	\$2.50	\$2.50

* Although Capistrano Beach and Ladera Ranch comprise a portion of South County's inventory set, they are not cited in the above data table since their inventory totals are diminutive.

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Irvine Spectrum	13,026,060	0	16.6%	103,702	103,702	\$3.66	\$2.73	\$3.16
Laguna Beach	90,845	0	6.2%	-3,147	-3,147	-	-	\$3.32
Laguna Hills	1,450,370	0	19.3%	-21,796	-21,796	\$2.95	\$2.71	\$2.72
Laguna Niguel	671,719	0	12.8%	677	677	\$1.70	\$2.48	\$2.16
Lake Forest	2,162,741	0	16.9%	13,627	13,627	\$2.19	\$2.15	\$2.17
Mission Viejo	1,463,882	0	16.9%	-15,864	-15,864	\$2.95	\$2.42	\$2.67
Rancho Santa Margarita	179,182	0	14.1%	-5,596	-5,596	-	\$2.20	\$2.20
San Clemente	365,291	0	7.4%	6,585	6,585	\$2.63	\$2.33	\$2.50
San Juan Capistrano	835,466	0	3.4%	2,960	2,960	\$2.50	\$2.54	\$2.50
West County	6,795,924	0	12.4%	-65,390	-65,390	\$2.75	\$2.21	\$2.51
Cypress	1,485,032	0	19.2%	-2,050	-2,050	\$2.59	\$2.14	\$2.44
Fountain Valley	835,369	0	2.0%	-1,200	-1,200	-	\$2.68	\$2.67
Garden Grove	598,593	0	8.8%	-7,684	-7,684	-	\$1.84	\$1.93
Huntington Beach	2,157,238	0	15.7%	-22,792	-22,792	\$2.80	\$2.19	\$2.52
Los Alamitos	674,018	0	4.7%	3,145	3,145	-	\$2.59	\$2.59
Seal Beach	338,033	0	17.1%	-10,607	-10,607	\$3.38	\$3.15	\$3.37
Stanton	115,576	0	5.1%	-3,692	-3,692	-	-	\$1.56
Westminster	592,065	0	9.7%	-20,510	-20,510	\$2.35	\$2.62	\$2.41
Market	97,164,963	190,000	17.7%	-399,329	-399,329	\$3.05	\$2.53	\$2.79

Under construction totals include ground-up construction only; under renovation and/or converted product is excluded. The same applies to construction deliveries.

Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.



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